

Post Retirement Policy Issues

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Demographics

Number of People (millions, IGR 2010)

Age	2010	2020	2030	2040
14-64	15.0	16.6	18.2	20.0
64-85	2.6	3.7	4.8	5.6
85+	0.4	0.5	0.8	1.3



Life Expectancy at Age 67

(IGR 2010)

	2010	2020	2030	2040
Males	17.6	19.1	20.4	21.6
Females	20.4	21.6	22.8	23.8



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Fiscal Issues

- Typical retirement benefit could be around \$700000 for a couple on AWE when the SGL matures around 2020
- Age Pension will still be a component of income to maintain a comfortable standard of living
- If invested appropriately, will provide together with the Age Pension a “comfortable” standard of living in retirement for the “average worker”



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BUT, this result assumes

- **Retirees can invest their retirement money to earn some average return**
- **Retirees do not have unexpected large cash requirements**
- **There is no capital market crisis**
- **Australia can afford the Age Pension at current levels**



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Post Retirement Needs

- **Providing a retirement income products to insure against longevity risk & investment risk**
- **Providing a retirement income products that provides for flexibility to meet unexpected cash requirements**
- **Providing for transfer of house assets to income producing assets/ care costs with ageing**



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Suitable Product issues

- A lifetime guaranteed annuity product is expensive unless hedging facilities available
- A variable annuity with a deferred insurance for longevity risk has issues with appropriate investment policy



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Lifetime Annuity Risks

Known/Known: general trends in mortality; general investment returns; general inflation changes

Known/ Unknown: mortality changes from improved disease & lifestyle management; investment return shocks; inflation shocks

Unknown/Unknown: mortality changes from pandemics, wars; investment changes that are permanent and unexpected; inflation changes that are permanent and unexpected



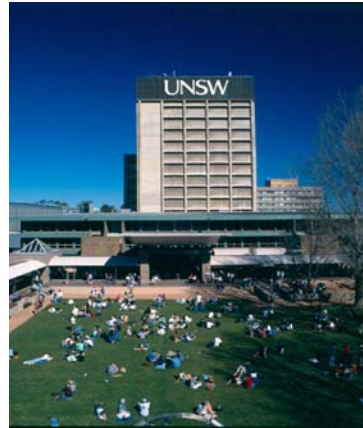
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Risk Management

Mortality: Cat Bonds

Investment: long term bonds

Inflation: long term CPI linked bonds



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Product Delivery Issues

- Compulsory/ Voluntary purchase with SGL proceeds
- Government/ Private Sector products
- Prudential control



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Where to?

Product Design
Capital Market development
Government support



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Home transfer issues

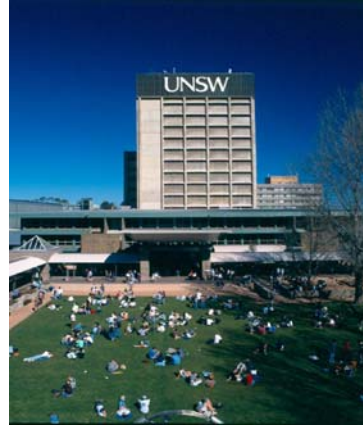
- Retirees' homes do not count for Age Pension asset test
- If downsizing occurs, or is required for care needs, there is likely to be an impact on Age Pension entitlement, which may or may not be offset by increased investment income



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Policy Issues

- **Development of an efficient annuity/deferred annuity market**
- **Improved coordination of home downsizing and Age Pension impacts**



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